City and County of San Francisco

Controller, Mayor, Board of Supervisors' Budget Analyst

Five Year Financial Plan Update for General Fund Supported Operations

FY 2014-15 through FY 2017-18

Joint Report by the Controller's Office, Mayor's Office, and Board of Supervisors' Budget Analyst

March 6, 2014

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Summary

San Francisco Administrative Code Section 3.6(b) requires that in each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimated summary budget for the remaining four years of the City's Five-Year Financial Plan. This report provides updated expenditure and revenue projections for Fiscal Years (FY) 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, assuming no changes to current policies and staffing levels. The next full update of the City's Five-Year Financial Plan will be submitted by the Mayor on or before March 2, 2015.

Table 1 summarizes the projected changes in General Fund supported revenues and expenditures over the next four years. As shown in Table 1, this report projects shortfalls of $66.7 million in FY 2014-15, $133.4 million in FY 2015-16, $282.6 million in FY 2016-17 and $339.4 million in FY 2017-18.

Table 1. Summary of General Fund Supported Operations Projected Budgetary Surplus/(Shortfall) ($ Millions)

	Savings/ (Cost) Change from Prior Year, $ Million			
	FY 2014-15	FY 2015-16	FY 2016-17	FY2017-18
Sources				
Use of One-Time Sources, Prior Year Fund Balance & Reserves	(34.3)	(16.3)	(105.4)	-
Regular Revenues, Transfers, & Other	160.9	147.1	89.7	92.2
Subtotal - Sources	**126.6**	**130.8**	**(15.7)**	**92.2**
Uses				
Salaries & Benefits	(98.9)	(52.2)	(48.8)	(71.2)
Other Expenditures, Reserves & Transfers	(94.4)	(145.3)	(84.8)	(77.8)
Subtotal - Uses	**(193.3)**	**(197.5)**	**(133.5)**	**(149.0)**
Total Net GF Impact (from Prior Year)	(66.7)	(66.7)	(149.3)	(56.8)
Total Net GF Impact (Cumulative)	**(66.7)**	**(133.4)**	**(282.6)**	**(339.4)**

While the projected shortfalls shown in the above table reflect the difference in projected revenues and expenditures over the next four years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional revenues. These projections assume no ongoing solutions are implemented. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

Key Assumptions

Key assumptions affecting the FY 2014-15 through FY 2017-18 projections are:

- **No major changes to service levels and number of employees:** This projection assumes no major changes to policies, service levels, or the number of employees from previously adopted FY 2013-14 and FY 2014-15 budgeted levels. This report does assume passage of the current year $4.5 million Nonprofit Rent Stabilization supplemental appropriation and the $1.4 million Homeless Services supplemental appropriation currently pending at the Board of Supervisors.

- **Continued economic recovery:** These projections assume the economic recovery that began in FY 2009-10 will continue through the forecast period and will be reflected in tax revenue increases. The rapid rates of growth experienced in the early part of the recovery (FY 2010-11 and FY 2011-12) have slowed. Economic growth, and the revenue derived from it, is heavily dependent on changes in employment, business activity and tourism. These are expected to increase at this slower pace in the first two years of the forecast. This report does not assume any economic downturns or large changes in macroeconomic conditions; however, the City has historically not experienced more than six consecutive years of expansion, and the final two years of this report assume slower rates of revenue growth.

- **Preliminary estimate of state and federal budget changes:** The State of California is projecting a budget surplus this year and this report does not assume significant cuts from the State. However, one notable exception is the State's "claw back" of realignment payments for county indigent health care. This report assumes a $33.8 million reduction in FY 2014-15, which is ongoing through FY 2017-18. The exact amounts of the claw back will not be known until the State budget is finalized. Similarly, the federal government is expected to take back its Disproportionate Share Hospital Funding in calendar year 2016 as a result of Affordable Care Act (ACA) implementation. However, the effect of this on the Department of Public Health is not yet known so is not assumed in this report. The City will continue to assess the effects of the federal budget, as well any additional changes to the State's fiscal outlook. Given the growth in the General Reserve and improvement in the state's budget, this projection does not assume a reserve for state or federal budget cuts.

- **No change in closed or open labor agreements in FY 2014-15, and inflationary increase on open labor agreements starting in FY 2015-16:** This projection assumes no change to closed collective bargaining agreements. It also assumes no changes to open labor agreements in FY 2014-15, which reflects adopted budget levels. Beginning in FY 2015-16, open contracts are assumed to have salary increases equal to the change in the Consumer Price Index (CPI-W). This is projected by the California Department of Finance to be 2.21% for FY 2015-16 and 2.45% for FY 2016-17 and FY 2017-18. The City is currently in negotiations with 27 of its labor unions for FY 2014-15 and beyond. This report assumes negotiated wage increases of 0.0%, 1.0%, 2.0% and 2.0% in FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively, for police officers. The same assumptions are made for firefighters, whose agreement is pending final approval.

- **Retirement plan employer contribution rates and implementation of pension reform (Proposition C)**. This report assumes total retirement costs continue to increase in FY 2014-15 due to investment losses in the San Francisco Employees' Retirement System (SFERS) and California Public Employees' Retirement System (CalPERS) during the prior

recession. SFERS employer contribution rates are based on projections prepared by the Retirement System's actuary in November 2013. They assume continuation of the SFERS Board adopted policy of decreasing estimated future investment returns from 7.75% to 7.5%; however, final rates for FY 2014-15 will be adopted by the Retirement Board in the coming months. For CalPERS members, this report includes rate increases starting in FY 2016-17 due to adjusted mortality assumptions adopted by the CalPERS Board in February 2014. Projections reflect employee contributions to retirement required under Proposition C. The maximum employer contribution rate for non-safety employees is 24.8% in the current fiscal year. This rate is projected to increase to 27.7% in FY 2014-15 and then decline to 26.0%, 24.3% and 23.6% in FY 2015-16, FY 2016-17, and FY 2017-18, respectively,

- **Health and dental insurance cost increases:** This projection assumes that the employer share of health and dental insurance costs will increase by approximately 5.0% in each year of the report. The Health Service System will be negotiating rates for calendar year 2015 throughout the spring and summer of 2014. For retiree health benefits, this report assumes that the City will continue its pay-as-you-go practice of funding the amounts currently due for retirees. The growth in this obligation has been estimated based on projected actual cost increases of approximately 9.0% per year.

- **Inflationary increase on non-personnel operating costs:** This projection assumes that the cost of materials and supplies, professional services, contracts with community-based organizations and other non-personnel operating costs will increase by the CPI-U (as projected by the California Department of Finance) rates of 2.2%, 2.4% and 2.4%, respectively for FY 2015-16, FY 2016-17 and FY 2017-18. The projection reflects the adopted FY 2014-15 budget.

- **Ten-Year Capital Plan and inflationary increases on equipment and IT funding:** This projection assumes that capital funding will increase over the next four years based on the levels assumed in the City's FY 2014-23 Ten-Year Capital Plan. For FY 2014-15, the capital projection reflects the previously adopted FY 2014-15 budget, which did not include full funding of the Capital Plan. Additionally, this report reflects the adopted FY 2014-15 equipment and fleet budget. In FY 2015-16, the projection assumes that equipment and fleet will be entirely cash funded at the level the City previously funded through cash and the lease finance program. For FY 2015-16 through FY 2017-18 the projection assumes the equipment and fleet budget will grow by CPI-U. The report assumes that Information Technology (IT) investments will increase by 10% per year from FY 2015-16 through FY 2017-18 in accordance with the City's Five-Year Information and Communication Technology (ICT) Plan, and also assumes an increase in funding starting in FY 2015-16 for major IT investments that increase by 10% in FY 2016-17 and FY 2017-18.

- **Rainy Day Reserve:** For years in which General Fund revenues decline, the Charter allows the City to withdraw up to 50% of the City's Rainy Day Economic Stabilization Reserve. The Charter also allows withdrawals of up to 25% of the Rainy Day Reserve for the San Francisco Unified School District (SFUSD) in years when inflation-adjusted per-pupil revenues decline. Withdrawals are at the discretion of the Mayor and Board of Supervisors. This report projects that the City will not meet the threshold for withdrawal from the Economic Stabilization Reserve during the projection period. The projected FY 2013-14 year-end balance is $20.5 million, including an estimated deposit of $3.0 million and allocation of $5.8 million to the SFUSD.

- **Renewal of PEEF and the Children's Amendment:** The Public Education Enrichment Fund (PEEF) and the Children's Amendment (The Children's Fund and the Children's Baseline) are two pieces of local legislation that set aside General Fund dollars for services for San Francisco children and families. The PEEF legislation sunsets at the end of FY 2014-15 and the Children's Amendment sunsets at the end of FY 2015-16. This report assumes that both pieces of legislation will be renewed and funding will continue at the same levels and rates of growth as specified under current legislation.

- **Police and Fire multi-year hiring plans:** This report assumes there will be one Fire Academy class (42 firefighters per class) and three Police Academy classes (50 police officers per class) each year over the next four years.

- **Annualization of supplemental:** This report assumes that the proposed Homeless Outreach Services supplemental appropriation of $1.4 million in FY 2013-14 is annualized to $5.6 million in FY 2014-15.

Key Factors That Could Affect These Forecasts

As with all projections, substantial uncertainties exist regarding key factors that could affect the City's financial condition. These include:

- **Economy:** Historically, periods of economic expansion are followed by economic contraction, or recession. Since the end of the Great Depression there have been 13 recessions, or approximately one every six years on average. The current economic expansion began over four and a half years ago. It would be an historic anomaly to not experience a recession within the projection period of this report. Because of the difficulty of projecting the timing of a recession, this report assumes slower rates of growth, rather than declines, in revenue in the final two years of the report; however, it is important for the City to closely monitor the economic conditions over the coming years.

- **Outcome of state and federal budget-balancing efforts**: At the time of report issuance, uncertainty remains around the local effects of state and federal budget deliberations, including formula- or sequestration-related changes to key grants and the claw back of realignment for county indigent care.

- **Collective bargaining agreement negotiations:** Other than approved wage increases in collective bargaining agreements and inflation on open contracts in FY 2015-16, FY 2016-17 and FY 2017-18, this report does not assume any contract changes due to ongoing labor negotiations. Wage or benefit changes above or below these assumptions would increase or decrease the City's projected deficit.

- **Pending or Proposed Legislation – Potential Fee / Departmental Revenue Increases:** Fee increases may be proposed to the Board of Supervisors before the end of the year or as part of the FY 2014-15 and FY 2015-16 budget. No increases are assumed in this projection.

- **Potential New Revenue Proposals and Charter Amendments in Future Elections:** This report makes some assumptions about the impact of potential revenue proposals or Charter amendments that may be included on future election ballots, which are outlined below:

- **The Earthquake Safety and Emergency Response (ESER) 2 Bond:** The City's Ten-Year Capital Plan assumes the City pursues a $400 million General Obligation (G.O.) bond on the June 2014 ballot, which was recently approved by the Board of Supervisors. This report assumes $11.6 million in reimbursements to the General Fund from bond proceeds for related planning expenses already incurred. If this bond does not pass, this reimbursement will not be received. In addition, this report assumes the associated furniture, fixture and equipment (FF&E) and move costs for new buildings constructed and seismically strengthened with bond proceeds. If this bond does not pass, the Police, Fire and the Medical Examiner's budgets could also be affected.

- **Public Education and Enrichment Fund (PEEF) and Children's Amendment:** This plan assumes that the Children's Amendment and PEEF legislation will be renewed in the November 2014 election before their respective sunset dates at the current legislation's prescribed funding levels and rates of growth. Electoral changes to these pieces of legislation, or their failure to be renewed, will affect this report's projections.

- **Vehicle License Fee increase and Transportation and Street Improvements Bond:** The Mayor's Transportation Task Force, led by the Controller's Office and the San Francisco Planning and Urban Research Association (SPUR), released its recommendations in November of 2013. The Task Force recommended that the City pursue an increase to the Vehicle License Fee as well as a $500 million Transportation and Street Improvements G.O. bond to fund critical transportation infrastructure needs such as fleet renewal, street repaving, and pedestrian and bicycle safety projects in November 2014. This report does not assume the passage of these revenue measures.

- **Changes to the Minimum Wage:** This projection assumes no change to the current minimum wage. However, discussions continue at both the federal and local level about raising the minimum wage. Depending on the ultimate change in the minimum wage, there will be a financial impact to the City in the form of increases for some contracted services, as well as a potential increase due to increased wages for certain City employees.

- **Public Health Facilities Seismic Improvements Bond**: The Ten-Year Capital Plan proposes the City pursue a $435 million G.O. bond for the Department of Public Health in 2015. This report assumes the associated furniture, fixture and equipment (FF&E) and move costs for new buildings constructed and seismically strengthened with this bond funding. If this bond does not pass, the Department of Public Health's budget could be affected.

- **Affordable Care Act implementation:** The Department of Public Health, along with other affected City agencies, is in the first year of implementation of federal health care reform, known as the Affordable Care Act (ACA). The net fiscal effect of this significant policy change continues to be uncertain, including potential state and federal take-backs of funds for indigent care, the impact on revenue of transitioning more patients from the Medi-Cal fee-for-service payment model to a capitated rate model, and patient insurance enrollment and facility utilization levels. This report assumes modest revenue growth at San Francisco General Hospital as formerly uninsured patients obtain insurance coverage through the State's Medi-Cal expansion program.

- **Public Utilities Hetch Hetchy Power Enterprise:** Absent corrective action, the Public Utilities Commission (PUC) is facing a significant structural deficit in the Hetch Hetchy Power Enterprise due to:
    - o An increase in projected annual costs resulting from the expiration of the PG&E interconnection agreement for the transmission and distribution of electricity;
    - o Additional regulatory mandates created by the regional council governing power utilities;
    - o Increased capital costs related to the Mountain Tunnel rehabilitation capital project; and
    - o Potential revenue reductions due to drought conditions.

  This report assumes that General Fund power utility rates will increase by one-half cent per kilowatt hour (kWh) each year of the forecast. Based on the most recent financial plan provided by the PUC, potential deficit solutions include raising City department power utility rates, which could have a significant effect on the City's General Fund; however, the extent of this impact is unknown at this time.

- **Fire Department Exclusive Ambulance Operating Agreement:** The Fire Department needs to be able to meet State standards on emergency medical service systems in light of rising call volumes and market share; however, this report assumes no changes to current staffing levels or funding at this time. The Fire Department will need to further determine optimal resource and deployment levels, which could negatively affect the Fire Department's budget.

Schedule of Upcoming Reports Containing Budget Projections

- **Early May - Controller's Nine-Month Budget Status Report:** This report will provide updated revenue, expenditure, and ending fund balance projections for FY 2013-14.
- **Mid-June - Controller's Discussion of the Mayor's Fiscal Year 2014-15 and 2015-16 Proposed Budget ("Revenue Letter"):** This report will provide the Controller's opinion regarding the reasonableness of the revenue estimates in the Mayor's Proposed Budget.

Appendix: Projected Changes to General Fund Supported Revenues and Expenditures

Table A-1. Key Changes to General Fund Supported Sources and Uses

Table A-2a. Summary of General Fund Supported Operating Revenues and Transfers In

Table A-2b. Growth Factors for General Fund Supported Sources

Table A-3a. Reserve Withdrawal & Appropriation Amounts

Table A-3b. Net Budgetary Impact of Changes to Reserves

Appendix: Projected Changes to General Fund Supported Revenues and Expenditures

Table A-1. Key Changes to General Fund Supported Sources and Uses

SOURCES Increase / (Decrease)	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
General Fund Taxes, Revenues and Transfers	188.7	119.2	79.3	81.8
Change in Use of One-Time Sources	(34.3)	(16.3)	(105.4)	-
Department of Public Health Revenues	(24.4)	24.8	7.4	7.5
Fire Department Ambulance Revenues	(4.1)	0.4	0.4	0.4
Other General Fund Supported Revenues	0.8	2.6	2.6	2.5
TOTAL CHANGES TO SOURCES	**126.6**	**130.8**	**(15.7)**	**92.2**
USES Decrease / (Increase)				
Baselines and Reserves				
Public Education Enrichment Fund Annual Contribution	(4.8)	(4.5)	(4.4)	(2.5)
Housing Trust Fund	(2.8)	(2.8)	(2.8)	(2.8)
All Other Baselines and Set-Asides	(19.3)	(14.5)	(17.4)	(9.7)
Contributions to Reserves	(8.8)	25.9	1.0	9.2
Subtotal Baselines and Reserves	**(35.8)**	**4.1**	**(23.6)**	**(5.7)**
Salaries & Benefits				
Annualization of Partial Year Positions	(13.9)	(1.0)	-	-
Projected Costs of Closed Labor Agreements	(25.1)	(5.1)	(9.4)	(9.5)
Projected Costs of Open Labor Agreements	-	(37.9)	(43.7)	(44.6)
Health & Dental Benefits - Current Employees	(8.7)	(9.5)	(12.1)	(12.7)
Health & Dental Benefits - Retired Employees	(8.2)	(9.1)	(9.9)	(10.8)
Retirement Benefits - Employer Contribution Rates	(42.0)	19.8	22.6	5.8
Other Salary & Benefits Savings / (Costs)	(0.9)	(9.4)	3.7	0.6
Subtotal Salaries & Benefits	**(98.9)**	**(52.2)**	**(48.8)**	**(71.2)**
Citywide Operating Budget Costs				
Capital, Equipment, & Technology	(25.4)	(64.2)	(39.3)	(29.8)
Inflation on Non-personnel Costs and Grants to Non-profits	-	(21.6)	(22.1)	(22.6)
Debt Service & Lease Financings	(6.2)	(7.1)	(1.2)	4.8
Workers' Compensation	0.2	(2.1)	(1.9)	(2.0)
Other Citywide Savings / (Costs)	1.2	(1.1)	0.5	(2.4)
Subtotal Citywide Operating Budget Costs	**(30.2)**	**(96.0)**	**(64.0)**	**(52.0)**
Departmental Costs				
City Administrator's Office - Convention Facilities Subsidy	0.0	(4.5)	0.0	(0.0)
Elections - Number of Scheduled Elections	3.0	(4.8)	3.5	0.7
Ethics Commission - Public Financing of Elections	(2.0)	(1.2)	1.4	0.3
Fire and Police - Opening of the Public Safety Building	9.2	(1.9)	(0.1)	(0.1)
Fire and Police - Multi-Year Hiring Plans	(7.8)	(10.7)	(11.4)	(4.9)
Human Services Agency - Aid	0.0	(4.4)	(4.7)	(4.8)
Public Health - SFGH Rebuild on-going and one-time costs	(27.0)	(20.9)	19.5	(0.8)
Public Health - Inflationary, Regulatory, & Annualization of Initiatives	4.9	(7.5)	(7.8)	(8.1)
Treasurer-Tax Collector - Gross Receipts Tax Implementation	(3.3)	2.7	1.0	1.0
Annualization of Supplementals	(5.6)	-	-	-
All Other Departmental Savings / (Costs)	0.0	(0.1)	1.5	(3.3)
Subtotal Departmental Costs	**(28.4)**	**(53.4)**	**2.9**	**(20.1)**
TOTAL CHANGES TO USES	**(193.3)**	**(197.5)**	**(133.5)**	**(149.0)**
Projected Surplus (Shortfall) vs. Prior Year	**(66.7)**	**(66.7)**	**(149.3)**	**(56.8)**
Cumulative Projected Surplus (Shortfall)	**(66.7)**	**(133.4)**	**(282.6)**	**(339.4)**

Notes to Table A-1

SOURCES – Revenues and Transfers In

General Context Underlying Revenue Estimates: These projections assume continued modest growth in tax revenues during the next four years. With the exception of property tax revenues, which did not decline during the last recession, local tax revenues bottomed out in FY 2008-09 and FY 2009-10, and returned to pre-recessionary levels by FY 2011-12, one to two years earlier than projected at the start of the recovery. The pace of revenue growth during the projection period will depend heavily on the strength of the national economy and local technology industry.

National Economy: Since the end of the Great Depression there have been 13 recessions, or approximately one every six years on average. Since the official end of the recession in June 2009, the national economy has expanded in 16 of 17 quarters, or for more than four consecutive years, suggesting there is risk of a slowdown during the final two years of this report. Because of the difficulty of projecting the timing of recessions, this report does not assume one. However, this would mean the current economic expansion lasts for ten years, or equal to the longest period of national Gross Domestic Product (GDP) expansion on record, which is unlikely to be the case.

Local economy: The technology industry is increasingly important for San Francisco's economy. Since 1997 employment in the technology sector has increased as a percentage of all San Francisco employment from less than 2% to more than 6% in 2012. According to data from the Bureau of Labor Statistics (BLS), since 2010 San Francisco has added approximately 32,000 new jobs of which more than 30% have been in the technology sector. This rapid expansion of the technology sector in San Francisco increases the City's exposure to volatility in the sector. The relative timing of a national recession and/or a downturn in the technology sector are critical for the San Francisco economy over the next four years; signs of over-valuation in our local technology sector may be the best leading indicators of an impending downturn.

In the near term, strong housing prices, consumer credit, tourism, job growth and demand for real estate in global gateway cities will support growth in tax revenues. Projected rates of revenue growth are slightly lower in the final two years of this report to reflect the risk of a downturn. General Fund taxes, revenues and transfers are projected to increase by $468.9 million over the next four years. These projections exclude certain revenue changes that have offsetting expenditure changes. This report projects continued moderate economic growth with higher growth rates in the first two years, supported by robust commercial and residential real estate markets, steady tourism and job growth. The final two years of the report include slower rates of growth to reflect the risk of a downturn. Below are details on specific revenue streams included in the General Fund Taxes, Revenues and Transfers line of Table A- 2a.

Property Tax: The FY 2014-15 General Fund share of property tax, which was originally budgeted at $1,153 million, is projected to increase to $1,232 million. These revenues are projected to grow to $1,295 million in FY 2015-16, $1,346 million in FY 2016-17, and $1,393 million in FY 2017-18. The value of the FY 2014-15 secured roll is estimated assuming growth of the Assessor's working roll through the remainder of the current year equal to the average pace of the first seven months. It also assumes a 40% drop in temporary (Prop 8) reductions granted by the Assessor due to the recovery of property market values in downtown neighborhoods between the January 1, 2013 and January 1, 2014 annual lien dates.

Base roll growth allowed under Proposition 13 is 0.45% in FY 2014-15, and is assumed at 2.00% in each of the following three years (the maximum allowed under Proposition 13). For FY 2015-16 through FY 2017-18, additional roll growth of 2.00% for change in ownership and other typical new construction assessments is also included. In addition, the assessed values of high-value commercial or high-rise residential properties (those with market values above $20 million) are assumed to be enrolled within two years of construction completion or change in ownership, increasing the tax base by $2.4 billion in FY 2015-16. Current construction is anticipated to add at least $0.5 billion to assessed values in FY 2016-17 and FY 2017-18.

Supplemental and escape property tax revenues fluctuate based upon the changes in ownership and new construction processed by the Assessor-Recorder. The General Fund share of supplemental and escape property tax assessments is estimated to be $65 million in FY 2014-15, and declining 10% per year to reflect a potential reduction in the volume of prior-year changes to be enrolled. Funds set aside for assessment appeals are estimated to decline 15% per year, assuming that the most significant adjustments to assessed property values are reflected in the Assessor's Roll and that market values continue to improve through FY 2017-18. The Property tax increment allocated to the Office of Community Investment and Infrastructure (the successor agency to the Redevelopment Agency) remains relatively constant throughout the projection period.

Private payrolls and business taxes grow steadily: Private employment, a key lagging indicator, reached a trough in calendar year 2010 and expanded at an average rate of 3% from 2011 to 2013. It is expected to grow, peaking at a rate of approximately 2.8% in 2015 before slowing down with growth rates of 1.2% and 1.6% in 2016 and 2017, respectively. As discussed above, projections are sensitive to the timing of national economic downturn and continued growth in the local technology sector. Wages are projected to grow at or slightly above projected rates of inflation (approximately 2.3%).

Sales tax revenues reflect projected employment growth: San Francisco's decline in sales tax revenue during the recession came later and recovered to prior peak levels earlier than the state as a whole as they are highly correlated with local employment and inflation. Continued expansion of the local technology sector and sustained growth of local tourism will support revenue growth in the later projection years.

Hotel tax revenue rebounds: Hotel tax receipts are projected to exceed their prior peak in the current year due to historically high room rates, now that occupancy rates have stabilized. One contributing factor was the completion of Moscone Convention Center renovations in July 2012, which boosted growth from convention-related business.

Commercial real estate values have rebounded: Real property transfer taxes were robust in FY 2011-12 and FY 2012-13 with approximately $230 million received in each year. Revenues are expected to remain at that level in FY 2014-15 before declining in the following three years. Revenue changes are largely a function of projected changes in office sales, which peaked in calendar year 2012, declined in 2013, and are expected to increase in 2014 and 2015 before tapering off in 2017 and 2018. Sales are expected to be driven by available capital being invested in commercial and multi-family residential properties by pension funds, real estate investment trusts and foreign investors.

Tables A-2a and A-2b summarize revenues and transfers-in. Highlights are noted below.

Table A-2a. Summary of General Fund Operating Revenues and Transfers In ($ Millions)

	FY 2012-13	FY 2013-14	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
	Year-End Actuals	Original Budget	6-Month Report	Projection	Projection	Projection	Projection
Property Taxes	$ 1,114.1	$ 1,153.4	$ 1,175.0	$ 1,232.0	$ 1,295.0	$ 1,346.0	$ 1,393.0
Business Taxes	479.6	533.0	534.7	564.0	597.1	634.8	660.1
Sales Tax	122.3	125.7	128.4	134.2	140.2	145.1	150.2
Hotel Room Tax	182.4	273.9	295.9	315.0	333.1	343.4	353.9
Utility Users Tax	91.9	93.5	91.4	91.7	91.9	93.1	94.0
Parking Tax	81.6	83.3	82.5	84.5	87.1	88.8	89.7
Real Property Transfer Tax	232.7	225.2	225.2	235.0	220.0	190.0	175.0
Stadium Admission Tax	2.8	2.8	2.8	1.3	1.4	1.4	1.4
Access Line Tax (FY09 incl. $37.1m 911 fee revei	42.6	42.6	42.6	43.5	44.3	45.2	46.1
Subtotal - Local Tax Revenues	**2,350.1**	**2,533.3**	**2,578.3**	**2,701.2**	**2,810.1**	**2,887.8**	**2,963.4**
Licenses, Permits & Franchises	26.3	25.5	25.7	26.1	26.2	26.4	26.6
Fines, Forfeitures & Penalties	6.2	9.1	6.8	4.2	4.2	4.2	4.2
Interest & Investment Income	10.3	10.9	9.8	7.1	8.5	9.3	9.3
Rents & Concessions	36.4	23.1	23.1	21.1	17.5	17.5	17.5
Subtotal - Licenses, Fines, Interest, Rent	**79.2**	**68.6**	**65.5**	**58.5**	**56.4**	**57.4**	**57.6**
Social Service Subventions	192.9	201.9	203.6	204.7	204.7	204.7	204.7
Other Grants & Subventions	4.3	12.5	12.3	2.5	2.5	2.5	2.5
Subtotal - Federal Subventions	**197.1**	**214.5**	**215.9**	**207.2**	**207.2**	**207.2**	**207.2**
Social Service Subventions	151.3	148.2	169.0	152.1	152.1	152.1	152.1
Health & Welfare Realignment - Sales Tax	147.7	133.9	133.9	140.1	145.1	144.2	147.2
Health & Welfare Realignment - VLF	27.4	27.4	30.5	29.0	29.0	27.4	27.4
Health & Welfare Realignment - CalWORKs MOE	25.5	23.5	23.3	23.8	23.8	23.8	23.8
Health/Mental Health Subventions	82.1	97.8	92.1	96.2	96.2	96.2	96.2
Public Safety Sales Tax	83.2	86.8	87.4	91.8	95.5	98.3	101.3
Motor Vehicle In-Lieu (County & City)	0.8	-	0.7	-	-	-	-
Other Grants & Subventions	32.6	45.2	45.5	43.2	43.2	43.2	43.2
Subtotal - State Subventions	**550.6**	**562.9**	**582.4**	**576.1**	**584.8**	**585.3**	**591.2**
General Government Service Charges	46.2	45.4	48.9	46.2	46.2	46.2	46.2
Public Safety Service Charges	27.5	26.3	27.7	26.8	26.8	26.8	26.8
Recreation Charges - Rec/Park	16.3	14.8	14.8	15.2	14.7	14.7	14.7
MediCal, MediCare & Health Svc. Chgs.	47.3	65.8	55.5	60.4	57.8	58.3	58.7
Other Service Charges	15.3	14.5	14.5	13.9	13.9	13.9	13.9
Subtotal - Charges for Services	**152.6**	**166.8**	**161.4**	**162.5**	**159.5**	**159.9**	**160.3**
Recovery of General Government Costs	11.9	10.3	10.3	10.3	10.3	10.3	10.3
Other General Fund Revenues	17.7	19.0	13.2	23.7	12.1	11.7	11.7
TOTAL REVENUES	**3,359.3**	**3,575.3**	**3,627.0**	**3,739.5**	**3,840.4**	**3,919.6**	**4,001.8**
Transfers in to General Fund							
Airport	36.5	37.0	36.6	37.7	38.4	40.3	41.9
Other Transfers	158.6	181.0	182.7	177.1	177.1	177.1	177.1
Total Transfers-In	**195.1**	**218.0**	**219.3**	**214.8**	**215.4**	**217.3**	**219.0**
TOTAL GF Revenues and Transfers-In	**3,554.3**	**3,793.3**	**3,846.3**	**3,954.3**	**4,055.8**	**4,136.9**	**4,220.8**

Table A-2b. Revenue Growth Factors

	FY 2014-15		FY 2015-16	FY 2016-17	FY 2017-18
	% Chg from FY 2013-14 Original Budget	% Chg from FY 2013-14 6-Month	% Chg from FY 2014-15	% Chg from FY 2015-16	% Chg from FY 2016-17
Property Taxes	6.8%	4.9%	5.1%	3.9%	3.5%
Business Taxes	5.8%	5.5%	5.9%	6.3%	4.0%
Sales Tax	6.8%	4.5%	4.5%	3.5%	3.5%
Hotel Room Tax	15.0%	6.5%	5.7%	3.1%	3.1%
Utility Users Tax	-2.0%	0.3%	0.2%	1.3%	1.0%
Parking Tax	1.5%	2.5%	3.1%	2.0%	1.0%
Real Property Transfer Tax	4.4%	4.4%	-6.4%	-13.6%	-7.9%
Stadium Admission Tax	-51.8%	-51.8%	2.0%	0.0%	0.0%
Access Line Tax	2.0%	2.0%	2.0%	2.0%	2.0%
Subtotal - Tax Revenues	**6.6%**	**4.8%**	**4.0%**	**2.8%**	**2.6%**
Licenses, Permits & Franchises	2.1%	1.3%	0.6%	0.6%	0.6%
Fines, Forfeitures & Penalties	-53.5%	-38.0%	0.0%	0.0%	0.0%
Interest & Investment Income	-35.1%	-27.8%	19.7%	9.4%	0.0%
Rents & Concessions	-8.4%	-8.4%	-17.3%	0.0%	0.0%
Subtotal - Licenses, Fines, Interest, Rent	**-14.7%**	**-10.6%**	**-3.6%**	**1.7%**	**0.3%**
Social Service Subventions	1.4%	0.5%	0.0%	0.0%	0.0%
Other Grants & Subventions	-79.8%	-79.4%	0.0%	0.0%	0.0%
Subtotal - Federal Subventions	**-3.4%**	**-4.0%**	**0.0%**	**0.0%**	**0.0%**
Social Service Subventions	2.6%	-10.0%	0.0%	0.0%	0.0%
Health & Welfare Realignment - Sales Tax	4.6%	4.6%	3.6%	-0.6%	2.1%
Health & Welfare Realignment - VLF	5.8%	-5.2%	0.0%	-5.3%	0.0%
Health & Welfare Realignment - CalWORKs MOE	1.4%	2.4%	0.0%	0.0%	0.0%
Health/Mental Health Subventions	-1.6%	4.5%	0.0%	0.0%	0.0%
Public Safety Sales Tax	5.7%	5.0%	4.0%	3.0%	3.0%
Motor Vehicle In-Lieu (County & City)	0.0%	0.0%	0.0%	0.0%	0.0%
Other Grants & Subventions	-4.5%	-5.2%	0.0%	0.0%	0.0%
Subtotal - State Subventions	**2.4%**	**-1.1%**	**1.5%**	**0.1%**	**1.0%**
General Government Service Charges	1.7%	-5.6%	0.0%	0.0%	0.0%
Public Safety Service Charges	1.9%	-3.2%	0.0%	0.0%	0.0%
Recreation Charges - Rec/Park	2.9%	2.9%	-3.1%	0.0%	0.0%
MediCal, MediCare & Health Svc. Chgs.	-8.2%	8.9%	-4.3%	0.7%	0.7%
Other Service Charges	-4.0%	-4.3%	0.0%	0.0%	0.0%
Subtotal - Charges for Services	**-2.5%**	**0.7%**	**-1.9%**	**0.3%**	**0.3%**
Recovery of General Government Costs	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Other Revenues	**25.0%**	**80.0%**	**-48.9%**	**-3.2%**	**0.0%**
TOTAL REVENUES	**4.6%**	**3.1%**	**2.7%**	**2.1%**	**2.1%**
Transfers in to General Fund					
Airport	2.1%	3.1%	1.7%	5.0%	4.1%
Other Transfers	-2.2%	-3.1%	0.0%	0.0%	0.0%
Total Transfers In	**-1.5%**	**-2.1%**	**0.3%**	**0.9%**	**0.8%**
TOTAL GF Revenues and Transfers-In	**4.2%**	**2.8%**	**2.6%**	**2.0%**	**2.0%**

SOURCES – One-Time Sources Including Fund Balance & One-Time Reserves

Change in starting fund balance: This report assumes available fund balance will be split evenly across the two upcoming budget years resulting in a net loss in General Fund supported starting fund balances of $16.0 million in FY 2014-15, $0 in FY 2015-16, and $103.9 million in FY 2016-17 comprised of:

> **Loss of prior year General Fund supported fund balances:** This represents the loss of $119.9 million in prior year General Fund supported fund balances used to support the FY 2013-14 budget that is not available in FY 2014-15.
>
> **Gain of FY 2013-14 starting General Fund supported balances:** This report projects a gain of the $103.9 million from the balance at the end of FY 2013-14 as projected in the Controller's Six-Month Budget Status Report used evenly over the upcoming two budget years.

In addition to changes in starting fund balance, this report assumes changes in one-time sources will result in reduced revenue of $18.3 million in FY 2014-15, $16.3 million in FY 2015-16 and $1.5 million in FY 2017-18. Additional information on the use of one-time reserves is provided in the Uses section on Baselines and Reserves below.

SOURCES – Other Citywide and Departmental Revenues

Public Health Revenues: The Department of Public Health (DPH) projects a revenue decrease of $24.4 million in FY 2014-15, followed by increases of $24.8 million in FY 2015-16, $7.4 million in FY 2016-17 and $7.5 million in FY 2017-18. These revenues are offset by increasing expenditures listed in the Uses section below. The revenue changes include:

> **San Francisco General Hospital (SFGH) Patient Revenues:** SFGH revenue estimates are based on projections from a study commissioned in 2013 to evaluate the effects of the Affordable Care Act (ACA). Projections include an increase of $64.6 million in FY 2014-15 in capitated revenues due to new enrollees under the ACA's Medi-Cal expansion, growing to $93.7 million by FY 2017-18. However, these increases are offset by reductions in fee-for-service revenues of $80.1 million in FY 2014-15 as former Medi-Cal beneficiaries transition into managed care programs. This amount declines to $69.6 million by FY 2017-18. These projections are preliminary and are based on assumptions regarding the capitated and supplemental reimbursement for enrollees in the Medi-Cal expansion program. Projections assume the Department of Public Health will provide service to 15,000 expanded Medi-Cal beneficiaries by FY 2014-15 and retain this membership over the life of the program, and that reimbursement will be sufficient to cover anticipated costs of approximately $400 per member per month. Because of the significant uncertainty about the effects of ACA, which began implementation in January 2014, it is possible these projections will change significantly once actual data is available on enrollments and reimbursements under the new law, likely in April or May 2014.
>
> **Realignment Claw Back:** As mentioned previously, this report assumes an ongoing $33.8 million reduction in FY 2014-15 due to the State's "claw back" of realignment payments for county indigent care. The exact amount of the claw back will not be known until the State budget is finalized.

Laguna Honda Hospital (LHH) Rate Change: DPH projects $10.0 million in additional ongoing revenue at LHH due to a change in the State's payment calculations. The State now uses more current cost data, which represents higher costs, resulting in more timely settlements and higher payments to LHH.

SB 208 Revenues: The State provides supplemental payments to agencies implementing the Medi-Cal managed care expansion program for seniors and persons with disabilities. DPH is expecting to receive this ongoing payment of $15.0 million in FY 2014-15 through FY 2017-18.

Fire Department Revenues: The Fire Department is experiencing a shortfall in ambulance revenues in the current fiscal year. Assuming no policy changes, the Department will have a $4.1 million revenue gap in their FY 2014-15 budget. Revenues in FY 2015-16, FY 2016-17, and FY 2017-18 are expected to experience mild growth as a result of inflationary increases.

Other General Fund-Supported Revenues: Other General Fund supported revenues are projected to increase by $0.8 million, $2.6 million, $2.6 million and $2.5 million in FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively. These revenues include Human Services Agency revenues and Airport revenues as described below.

Human Services Agency Revenues: The Human Services Agency (HSA) is projected to draw incremental state and federal revenues to pay for additional salaries and fringe benefit costs. The Department estimates they will draw revenues for approximately 36% of salary and benefit costs in FY 2015-16 and FY 2016-17, and 35% of salary and benefit costs in FY 2017-18, resulting in incremental revenue increases of $2.1 million, $0.7 million and $0.9 million in FY 2015-16, FY 2016-17 and FY 2017-18, respectively.

Airport Revenues: The General Fund receives a portion of Airport concessions revenue annually. For FY 2014-15 through FY 2017-18, the Airport projects these revenues to increase by $0.8 million, $0.6 million, $1.9 million, and $1.6 million, respectively.

USES – Changes to Reserves and Baselines

Changes to Reserves: The net change in reserves is estimated to be a cost of $12.5 million in FY 2014-15, followed by savings of $20.8 million in FY 2015-16, $1.0 million in FY 2016-17, and $9.2 million in FY 2017-18. Key changes to reserves are summarized below and reflected in Table A-3a and Table A-3b.

Rainy Day Reserve: For years in which General Fund revenues decline, the Charter allows the City to withdraw up to 50% of the City's Rainy Day Economic Stabilization Reserve. The Charter also allows withdrawals of up to 25% of the Rainy Day Reserve for the San Francisco Unified School District (SFUSD) in years when inflation-adjusted per-pupil revenues decline. Withdrawals are at the discretion of the Mayor and Board of Supervisors. This report does not project a City withdrawal from the Economic Stabilization Reserve during the projection period. The projected FY 2013-14 year-end balance is $20.5 million, including an estimated deposit of $3.0 million and allocation of $5.8 million to the SFUSD. Table A-3a reflects the budgeted use of $1.5 million of the Rainy Day One-Time Reserve in FY 2013-14, and assumes no further withdrawals during the projection period. The estimated FY 2013-14 year-end balance of the One-Time Reserve is $3.0 million.

Recreation & Park Reserve: The FY 2013-14 budget used $9.7 million of Recreation & Park Budget Savings Incentive Reserve to support one time expenditures in the Recreation and Park Department, leaving an available balance of $5.1 million in the reserve to support one time expenditures in the Department's FY 2014-15 budget. This report does not assume use of this reserve to support future year budgets beyond FY 2014-15.

General Reserve: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates the General Reserve rising from $44.7 million in FY 2013-14 to 1.5% of regular General Fund revenues in FY 2014-15 (projected at $56.2 million) to 1.75% in FY 2015-16 ($67.3 million), and to 2.0% in FY 2016-17 ($78.5 million) and FY 2017-18 ($80.1 million). This report also assumes no withdrawals and that unspent monies at the end of each fiscal year will be carried forward to the subsequent year.

Budget Stabilization Reserve: Consistent with the financial policies adopted by the Board of Supervisors in April 2010 and codified in Administrative Code Section 10.60(b), this report anticipates a deposit of $22.8 million into the Budget Stabilization Reserve in FY 2014-15, $1.4 million in FY 2015-16, and $0 in FY 2016-17 and FY 2017-18. These deposits are related to projected Real Property Transfer Tax revenues above.

Salaries and Benefits Reserve: This report assumes previously adopted FY 2014-15 budget levels for the salary and benefits reserve, and projects increasing the salary and benefits reserve by CPI-W in each year of the projection period from the $13.5 million level appropriated in the FY 2014-15 budget to support costs related to labor agreements not budgeted in individual departments.

Litigation Reserve: This report projects increasing the Litigation Reserve by CPI in each year of the projection period from the $11.0 million level appropriated in the FY 2013-14 budget to $17.0 million based on current estimates of liabilities related to claims, settlements and judgments.

Table A-3a. Reserve Withdrawal and Appropriation Amounts ($ Millions)

	Orig. Budget FY 2013-14	FY 2014-15	Projected FY 2015-16	FY 2016-17	FY 2017-18
Reserve Withdrawals Used to Support Budget					
Rainy Day One-Time Reserve	$ 1.5	$ -	$ -	$ -	$ -
Recreation & Park Reserve	9.7	5.1	-	-	-
Total Withdrawals	**$ 11.2**	**$ 5.1**	**$ -**	**$ -**	**$ -**
Appropriations to Reserves					
General Reserve Requirement	*$ 44.7*	*$ 56.2*	*$ 67.3*	*$ 78.5*	*$ 80.1*
General Reserve Deposit	22.8	16.0	11.1	11.2	1.6
Budget Stabilization Reserve	16.0	22.8	1.4	-	-
Salaries & Benefits Reserve	13.1	13.5	13.8	14.1	14.4
Litigation Reserve	11.0	17.0	17.0	17.0	17.0
Total Appropriations	**$ 62.9**	**$ 69.2**	**$ 43.3**	**$ 42.3**	**$ 33.1**

Table A-3b. Net Budgetary Impact of Changes to Reserves ($ Millions)

	Change from Prior Year Budget FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Increase (Decrease) in Reserve Withdrawals Used to Support Budget				
Rainy Day Reserve	$ (1.5)	$ -	$ -	$ -
Recreation & Park Reserve	(4.6)	(5.1)	-	-
Subtotal Changes to Withdrawals	**$ (6.1)**	**$ (5.1)**	**$ -**	**$ -**
Decrease (Increase) in Appropriations to Reserves				
General Reserve Requirement	*$ 11.5*	*$ 11.1*	*$ 11.2*	*$ 1.6*
General Reserve Deposit	6.9	4.9	(0.1)	9.6
Budget Stabilization Reserve	(6.8)	21.4	1.4	-
Salaries & Benefits Reserve	(0.4)	(0.3)	(0.3)	(0.3)
Litigation Reserve	(6.0)	-	-	-
Subtotal Changes to Appropriations	**$ (6.3)**	**$ 25.9**	**$ 1.0**	**$ 9.2**
Net Budgetary Impact of Changes to Reserves	**$ (12.5)**	**$ 20.8**	**$ 1.0**	**$ 9.2**

Baseline and Mandate Requirements: The Charter specifies baseline-funding levels for various programs or functions that are generally linked to changes in discretionary General Fund revenues, though some are a function of Citywide expenditures or base-year program expenditure levels.

As a result of growing discretionary revenue, the City's mandated contributions to baselines and set-asides is increasing by $23.5 million, $18.9 million, $24.5 million and $14.9 million in FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18. Key changes to baseline contributions are summarized below and in Table A-4a and Table A-4b.

> **Public Education Enrichment Fund Annual Contribution***:* Proposition H created the Public Education Enrichment Fund Annual Contribution as well as the Public Education Baseline. The Public Education Enrichment Fund (PEEF) contribution is projected to increase by $4.4 million, $4.2 million, $4.0 million and $2.3 million in FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively. These increases reflect the

percentage increase in the City's aggregate discretionary revenue over the next four years, as prescribed by Charter Section 16.123-2. The local legislation for PEEF sunsets at the end of FY 2014-15. This report assumes that the legislation will be renewed by voters, no repayment of amounts deferred by the City due to budget shortfalls, and funding will continue at the same level and rate of growth as prescribed by the current legislation.

The Public Education Baseline is projected to grow by $0.4 million, $0.3 million, $0.4 million and $0.2 million in FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively.

Children's Baseline: This report assumes that the required expenditure appropriation for the Children's Baseline is more than exceeded in each year, therefore, no net budgetary impact is projected.

Housing Trust Fund: This report assumes that the Housing Trust Fund will continue to grow by $2.8 million in each year, as prescribed by legislation.

Table A-4a. Projected Baseline & Select Mandated Expenditures ($ Millions)

	Orig. Budget		Projected		
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Municipal Transportation Baseline	$ 232.0	$ 245.9	$ 255.6	$ 268.3	$ 275.3
MTA Transfer In - Lieu of Parking Tax	66.6	67.6	69.7	71.0	71.8
Library Preservation Baseline	57.7	61.1	63.6	66.7	68.5
Public Education Baseline	7.3	7.7	8.1	8.5	8.7
Public Education Enrichment Fund (PEEF) Annual Contribution	73.2	77.5	81.7	85.8	88.0
Children's Baseline - Required Appropriation	125.5	133.0	138.3	145.1	149.0
Human Services Care Fund	13.7	14.4	14.4	14.4	14.4
Controller - City Services Auditor	12.9	13.8	13.8	13.9	14.0
Housing Trust Fund	20.0	22.8	25.6	28.4	31.2
Total Baselines & Select Mandates	**$ 608.8**	**$ 621.1**	**$ 645.2**	**$ 702.1**	**$ 720.8**

Table A-4b. Baseline & Select Mandated Expenditures, Change from Prior Year Budget ($ Millions)

		Projected		
	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Municipal Transportation Baseline	$ (13.9)	$ (9.8)	$ (12.6)	$ (7.1)
MTA Transfer In - Lieu of Parking Tax	(1.0)	(2.1)	(1.4)	(0.7)
Library Preservation Baseline	(3.5)	(2.4)	(3.1)	(1.8)
Public Education Baseline	(0.4)	(0.3)	(0.4)	(0.2)
Public Education Enrichment Fund (PEEF) Annual Contribution	(4.4)	(4.2)	(4.0)	(2.3)
Children's Baseline - Required Appropriation*	-	-	-	-
Human Services Care Fund	0.5	-	-	-
Controller - City Services Auditor	(0.9)	(0.1)	(0.1)	(0.1)
Housing Trust Fund	(2.8)	(2.8)	(2.8)	(2.8)
Total Baselines & Select Mandates	**$ (23.5)**	**$ (18.9)**	**$ (24.5)**	**$ (14.9)**

** This report assumes the budgeted funding levels for the Children's Baseline meets mandated expanditure levels as described in the text.*

USES – Salaries and Benefits

This report projects General Fund supported salaries and fringe benefits to increase by $98.9 million in FY 2014-15, $52.2 million in FY 2015-16, $48.8 million in FY 2016-17, and $71.2 million in FY 2017-18. These increases, discussed in greater detail below, reflect the annualization of partial year positions approved in the current fiscal year, provisions in collective bargaining agreements, health and dental benefits for current and retired employees, retirement benefit costs, and other salary and benefit costs.

Annualization of Partial Year Positions: In FY 2014-15, the City is projected to incur $13.9 million in additional costs to annualize positions funded for only a partial year in the FY 2013-14 budget, and an additional $1.0 million in FY 2015-16 for positions already approved to begin mid-year in FY 2014-15.

Projected Costs of Closed Labor Agreements: The additional salary and benefit costs of closed labor agreements are projected to be $25.1 million for FY 2014-15. These costs include agreed-upon wage increases of 3.0% during FY 2013-14 and annualization of this wage increase in FY 2014-15 for most City employees. Most of the City's current labor agreements end on June 30, 2014. However, the Memorandum of Understanding (MOU) for police officers is now closed through FY 2017-18; this MOU includes negotiated wage increases of 0.0%, 1.0%, 2.0% and 2.0% over the next four years. This report assumes the same for firefighters, whose agreement is pending final approval. The City is projected to incur additional General Fund costs of $25.1 million, $5.1 million, $9.4 million and $9.5 million in FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively, as a result.

Projected Costs of Open Labor Agreements: This projection assumes no additional raises in FY 2014-15 for open labor contracts, which the City is currently negotiating, (although the projections do incorporate a cost increase in FY 2014-15 due to the annualization of prior agreed-upon raises). Beginning in FY 2015-16, this report assumes that bargaining units receive salary increases equivalent to the change in the Consumer Price Index (CPI-W) of 2.21%, 2.45% and 2.45% percent in FY 2015-16, FY 2016-17 and FY 2017-18, respectively. The additional salary and benefit costs for open collective bargaining agreements, using these assumptions, are projected to be $37.9 million, $43.7 million in FY 2016-17, $44.6 million in FY 2017-18. **These increases are provided for projection purposes only; actual costs will be determined in labor negotiations to be concluded by May 15, 2014.**

Health and Dental Benefits for Current Employees: In July 2013, the Board of Supervisors adopted Health Plan rates for calendar year 2014, the first half of the current fiscal year. The Health Service System anticipates negotiating rates for calendar year 2015 in late spring 2014, to be adopted in late summer of 2014. These projections assume historical average increases of approximately 5.0% in health and dental rates in each year. Given these assumptions, health and dental insurance premium costs related to current employees are projected to increase by $8.7 million in FY 2014-15, $9.5 million in FY 2015-16, $12.1 million in FY 2016-17, and $12.7 million in FY 2017-18. While the adopted rates include the effect of federal taxes and fees levied on employer-based health plans as part of the implementation of the Affordable Care Act, which was a key uncertainty at this time last year, challenges in projecting rates remain. A new flat-contribution cost-sharing model will go into effect for many employees in January of 2015; additional employee groups may elect to adopt this model, which may affect migration among plans. Utilization and cost trends shift due to demographic changes, plan design, and other factors.

Health and Dental Benefits for Retired City Employees: Charter Section A8.428 mandates health coverage for retired City employees. The cost of medical benefits for retirees is projected to increase by $8.2 million, $9.1 million, $9.9 million, and $10.8 million in FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively. Proposition B, passed by voters in June of 2008, began to address this unfunded liability by requiring employees hired after January 10, 2009 and the City to pay 2.0% and 1.0% of pre-tax compensation, respectively, into a Retiree Health Care Trust Fund. Proposition C, passed by voters in November of 2011, enhanced Proposition B's efforts by requiring all remaining employees and the employer to begin contributing to this fund beginning in FY 2016-17. Starting July 1, 2016, employees hired before January 10, 2009 will begin contributing 0.25% of pre-tax compensation into the retiree health care trust fund with additional 0.25% of each subsequent year, up to a maximum of 1.0%, and the City will match the contribution commensurately. To date, the City's contribution to the Retiree Health Care Trust Fund per Proposition C has been paid through existing departmental budgets; however, the growth rate of employees hired after January 10, 2009 is estimated at an 18.0% increase per year from FY 2014-15 to FY 2017-18. Therefore, this report now assumes General Fund support will grow $0.8 million, $1.0 million, $4.1 million and $3.9 million each year in FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18, respectively.

Retirement Plan Employer Contribution Rates and Implementation of Pension Reform (Proposition C). The majority of City employees are part of the San Francisco Employees Retirement System (SFERS), and some public safety personnel are part of the California Public Employees Retirement System (CalPERS). In November 2011, Proposition C changed the way the City and employees share in funding pension benefits. The base employee contribution rate remains at 7.5% for most employees when the City contribution rate is between 11% and 12% of payroll. When the City contribution rate is above 12%, employees pay an additional amount based on the salary band in which their wages fit.

Total retirement costs continue to increase in FY 2014-15 due to investment losses in the San Francisco Employees' Retirement System (SFERS) and California Public Employees' Retirement System (CalPERS) during the 2008 recession. The SFERS employer contribution rates below are assumed in this report and are based on projections prepared by the Retirement System's actuary in November 2013. They assume continuation of the SFERS Board adopted policy of decreasing estimated future investment returns from 7.75% to 7.5%; however, final rates for FY 2014-15 will be adopted by the Retirement Board in the coming months. Table A-6 below reflects the total contribution rate, the portion of the rate that employees contribute, and the City's portion. Rates for Police and Fire safety employees vary based on date of hire. Employees hired after January 2009 contribute based on the band 3 rate.

For CalPERS members, the projections in this report assume previously adopted rates, as well as projected rate increases starting FY 2016-17 due to adjusted mortality assumptions adopted by the CalPERS Board in February 2014. Proposition C requires the City to achieve comparable savings from CalPERS members as SFERS members. The table below reflects employee contributions for CalPERS members.

The net result of these changes is an increase in total General Fund supported employer contributions into SFERS and CalPERS of $42.0 million in FY 2014-15, followed by incremental cost decreases of $19.8 million in FY 2015-16, $22.6 million in FY 2016-17, and $5.8 million in FY 2017-18.

Table A-6. Employee and Employer Retirement Contribution Rates

San Francisco Employees Retirement System (SFERS)

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Non-Safety					
Employee Contribution (1)					
Band 1, < $24.53/hour	7.50%	7.50%	7.50%	7.50%	7.50%
Band 2, < $49.07/hour	11.00%	11.25%	11.00%	11.00%	11.00%
Band 3, >$49.07/hour	11.50%	11.75%	11.50%	11.50%	11.50%
Employer Contribution (1)					
Band 1, < $24.53/hour	24.82%	27.70%	26.00%	24.30%	23.60%
Band 2, < $49.07/hour	21.32%	23.95%	22.50%	20.80%	20.10%
Band 3, >$49.07/hour	20.82%	23.45%	22.00%	20.30%	19.60%
Police and Fire Safety Employees (2)					
Employee Contribution	12.00%	12.25%	12.00%	12.00%	12.00%
Employer Contribution	20.32%	23.25%	21.50%	19.80%	19.10%

California Public Employees Retirement System (CalPERS)

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Total Contribution Rate (3)	21.59%	22.94%	24.60%	27.70%	31.90%
Employee Contribution	4.50%	3.30%	3.30%	3.30%	3.30%
Employer Contribution	17.09%	19.73%	22.10%	24.40%	28.60%

(1) Employees are divided into three bands based on wages. The wages shown are based on the FY 2013-14 wage floors.

(2) Employee base contribution rates vary depending on hire date. For employees hired before July 1, 2010, the rate is 7.5%. For those hired after July 1, 2010, the rate is 9.0%. For display purposes, this table assumes an average rate of 7.5%.

(3) Rates vary among employees; this table displays average rates.

Other Salaries and Fringe Benefits Costs: Other salary and benefit cost changes are expected to be modest, with the biggest changes occurring due to the changing number of work days in a given fiscal year. Most fiscal years consist of 261 workdays for regularly scheduled shifts and 365 days for 24/7 operations. FY 2013-14 and FY 2014-15 are normal years; however, FY 2015-16 is a leap year and contains 366 days for 24/7 operations and 262 workdays for regularly scheduled shifts, therefore the City incurs additional General Fund costs of $7.8 million in that year, which go away in FY 2016-17. FY 2017-18 again contains only 260 regularly scheduled workdays and the City expects to see savings in that year of $4.5 million.

Other salary and benefit changes include changes to costs for unemployment insurance, Long Term Disability, and any changes to the FICA income cap, as well as other small salary and fringe adjustments and MOU-related agreements. The combined effect of these changes is a General Fund cost increase of $0.9 million in FY 2014-15 and $9.4 million in FY 2015-16, followed by decreases of $3.7 million and $0.6 million in FY 2016-17 and FY 2017-18.

USES – Citywide Operating Budget Costs

Table A-1 displays other non-salary Citywide cost increases of $30.2 million, $96.0 million, $64.0 million, and $52.0 million for FY 2014-15, FY 2015-16, FY 2016-17, and FY 2017-18, respectively.

Capital, Equipment, & Technology: As shown in Table A-5, changes in funding for capital, equipment, and technology will result in an increase in General Fund support of $25.4 million in FY 2014-15, $64.2 million in FY 2015-16, $39.3 million in FY 2016-17, and $29.8 million in FY 2017-18.

Table A-5. Capital, Equipment and Technology Costs ($ Millions)

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Ten-Year Capital Plan Budget	(37.9)	(24.2)	(15.2)	(10.9)
Capital One-Time Bond Reimbursements	11.6	(11.6)	-	-
Capital FF&E, moving and operating costs	-	(2.2)	(19.8)	(14.2)
Equipment and Fleet	(1.8)	(7.6)	(0.4)	(0.4)
Five-Year Information & Communication Technology Plan Budget	2.7	(3.1)	(2.3)	(2.5)
Major IT Investments	-	(15.4)	(1.5)	(1.7)
Total Capital, Equipment, & Technology	**(25.4)**	**(64.2)**	**(39.3)**	**(29.8)**

This report assumes that capital budget funding will increase based on the levels assumed in the City's FY 2014-23 Ten-Year Capital Plan for FY 2014-15, 2015-16, FY 2016-17, and FY 2017-18, which represents an increase in General Fund support of $37.9 million, $24.2 million, $15.2 million and $10.9 million, respectively in each year. For FY 2014-15, the capital projection reflects the previously adopted FY 2014-15 budget, which did not include full funding of the Capital Plan. In addition, this report assumes $11.6 million in one-time bond reimbursements in FY 2014-15 from the Earthquake Safety and Emergency Response (ESER) 2 bond for past planning dollars funded through the City's pay-as-you-go General Fund capital budget. The ESER 2 bond will be before the voters in June 2014; if the bond does not pass, this $11.6 million in revenue will not be received. Additionally, the City is experiencing increasing furniture, fixture and equipment costs (FF&E) associated with new and upgraded City facilities related to the ESER 2 bond (for the Police Department, the Medical Examiner's Office, and the Fire Department) and the proposed 2015 Public Health Facilities Seismic Improvements bond for the Department of Public Health (DPH) in the amounts of $2.2 million in FY 2015-16, $19.8 million in FY 2016-17, and $14.2 million in FY 2017-18. This report assumes this bond will be approved by voters. Additionally there are operating and FF&E costs for the new Public Safety Building and San Francisco General Hospital. These costs are discussed in the departmental section of this report in greater detail.

This report assumes levels of cash purchased equipment and fleet replacement costs for the FY 2014-15 adopted budget, which represents an increase of $1.8 million over FY 2013-14. In FY

2015-16, this report assumes that equipment and fleet will increase by $7.6 million to reach previous levels of investment as well as projected need. This projection assumes increases in costs according to CPI, or $0.4 million per year, in FY 2016-17 and FY 2017-18. Captured in the equipment and fleet projection are replacement schedule assumptions for Police vehicles, City fleet vehicles, and Fire apparatus as well as assumptions based on past requests from Recreation and Park, Public Works, Public Health, and other General Fund departments. This projection assumes that no equipment and fleet purchases will be funded through the use of lease revenue bonds in any of the next four years. By using cash instead of debt financing, the City saves on financing costs, reducing the overall cost of equipment purchases over the long term.

Citywide technology costs are projected to decrease by $2.7 million in FY 2014-15, as reflected in the previously adopted FY 2014-15 budget. Technology costs are projected to increase by $3.1 million in FY 2015-16, $2.3 million in FY 2016-17, and $2.5 million in FY 2017-18 per recommendations outlined in the City's Information and Communication Technology (ICT) Plan for FY 2013-14 through FY 2017-18. This report also assumes an increase in funding for major Information Technology investments in the amount of $15.4 million starting in FY 2015-16 and increasing by 10.0% in FY 2016-17 and FY 2017-18, consistent with capital planning and ICT Plan assumptions to grow funding for IT and capital as time goes on. This increase in funding is assumed to reflect the risk the City faces with replacing the City's aging information and communication technology systems over the coming several years. The City's ICT Plan recognizes this risk and specifically identifies the replacement of the City's financial system ($72.2 million), replacement of public safety radio systems ($69.0 million), and replacement of the Assessor-Recorder's property tax database ($13.0 million) as critical and currently unfunded projects. These projects are projected to need significant amounts of funding; therefore, this assumption represents an investment strategy for funding these projects over the next several years. This level of funding for major IT investments will be reviewed by the Committee on Information Technology (COIT) during the budget process and also revisited in the City's next Five-Year ICT plan due to the Board of Supervisors in spring of 2015.

Inflation on Non-Personnel Costs and Grants to Non-Profits: Over the next four years, this report assumes that the cost of materials and supplies, professional services, contracts with Community-Based Organizations and other non-personnel operating costs will rise by Consumer Price Index (CPI-U) increases of 2.2%, 2.4%, and 2.4% for FY 2015-16, FY 2016-17 and FY 2017-18, respectively. The projection reflects the adopted FY 2014-15 budget spending levels in the first year of the report. This generates an increase in costs to the City of $21.6 million, $22.1 million, and $22.6 million in FY 2015-16, FY 2016-17 and FY 2017-18, respectively.

Debt Service & Lease Financings: Over the next four years, total debt service and lease financing costs are projected to increase by $6.2 million in FY 2014-15, $7.1 million in FY 2015-16, $1.2 million in FY 2016-17, and then decrease $4.8 million in FY 2017-18. These projections are based on current debt repayment requirements and projected debt service costs for investments anticipated in the Capital Plan. These projections do not include debt service related to the Moscone Convention Center, which is reflected in the Convention Facilities Fund subsidy projection. The increases over the next several years are primarily due to the repayment of Certificates of Participation (COPs) for the War Memorial Veterans Building seismic upgrade, equipment leases for SF General Hospital, HOPE SF, and the Jail Replacement project.

Workers' Compensation: Workers' compensation costs are projected to decrease by $0.2 million in FY 2014-15, and then increase by $2.1 million in FY 2015-16, $1.9 in FY 2016-17, and $2.0 million in FY 2017-18. These projections are based on projected actual spending in FY 2013-14, known changes to State workers compensation requirements, and an assumed 5.0% medical inflation rate.

Other Citywide Costs: This category includes assumed costs of real estate transactions for the City's General Fund departments; rate increases by the Public Utilities Commission (PUC) for electricity, natural gas and steam, sewer and water; the expiration of one-time costs from the prior year budget; and other minor changes. These items together result in General Fund savings of $1.2 million in FY 2014-15, increased costs of $1.1 million in FY 2015-16, decreased costs of $0.5 million in FY 2016-17, and increased costs of $2.4 million in FY 2017-18.

USES –Departmental Costs

Table A-1 displays other departmental cost increases of $28.4 million in FY 2014-15 and $53.4 million in FY 2015-16, savings of $2.9 million in FY 2016-17, and cost increases of $20.1 million in FY 2017-18.

City Administrator – Convention Facilities Fund Subsidy: This Plan assumes the Convention Facilities Fund will need a General Fund subsidy increase of $4.5 million ongoing starting in FY 2015-16. These cost increases are due to lower than expected operating revenue at the facilities due to the partial closure during expansion of the facility, and loss of one-time prior year fund balance.

Elections Department – Number of Elections: The number of elections, and the associated costs for holding elections, varies annually. Currently, one November gubernatorial election is projected for FY 2014-15, two elections are projected in FY 2015-16 (a municipal election and a June Presidential primary), one Presidential General Election is projected in FY 2016-17, and one gubernatorial primary election in FY 2017-18. This schedule results in a projected incremental savings of $3.0 million in FY 2014-15, a cost of $4.8 million in FY 2015-16, and savings of $3.5 million and $0.7 million in FY 2016-17 and FY 2017-18, respectively. Any special election not included in this projection would result in increased General Fund costs dependent on the complexity of the ballot and the size of the electorate.

Ethics Commission – Public Financing of Elections: The Ethics Commission administers the Election Campaign Fund. Annual General Fund deposits to the Campaign Fund are governed by ordinance. Amounts in the Fund not used in one election are carried over for use in the following election, and at no time shall the total amount in the Fund exceed $7.0 million. This projection assumes that a General Fund deposit will occur in all four years of the forecast and that eligible candidates will qualify and accept disbursements each fiscal year based on historical actuals. An additional cost of $2.0 million is assumed in FY 2014-15. The following years of the projection assume the Fund will start with a balance of $7.0 million each year but could fluctuate based on actual disbursements to supervisorial and mayoral candidates. In FY 2015-16, an additional cost of $1.2 million is projected, followed by a savings of $1.4 million in FY 2016-17, and a savings of $0.3 million in FY 2017-18.

Fire and Police – Opening of the Public Safety Building: In addition to the project costs for the Public Safety Building and Fire Station 4 funded through the Earthquake Safety and Emergency Response 1 bond, there are associated operating and furniture, fixture and

equipment (FF&E) costs for these new projects. None of these costs may be paid using bond proceeds, and therefore require additional General Fund support. Operating costs for the Public Safety Building (PSB) are $5.4 million in FY 2014-15 increasing by $1.9 million in FY 2015-16 and increasing by a further $0.1 million in both FY 2016-17 and FY 2017-18; these cost increases are offset in FY 2014-15 by a reduction in General Fund support of $14.6 million due to the expiration of one-time uses for furniture, fixtures and equipment (FF&E) related to the PSB.

Fire and Police – Multi-Year Hiring Plans: Over the next four years, the report assumes there will be one Fire Academy class and three Police Academy classes each year. The Police portion of the hiring plan assumes the City will hire 150 officers a year at an increasing cost of $12.6 million in FY 2014-15, $11.1 million in FY 2015-16, $11.2 million in FY 2016-17 and $3.3 million in FY 2017-18. The Fire portion of the hiring plan assumes the City will hire 42 new firefighters a year, resulting in overtime expenditure reductions of $4.8M in FY 2014-15 and $0.4M in FY 2015-16, and increasing costs of $0.2M in FY 2016-17 and $1.6M in FY 2017-18.

Human Services Agency – Aid: The Human Services Agency projects that aid and the Care Not Cash programs will require an increases in General Fund support of $4.4 million in FY 2015-16, $4.7 million in FY 2016-17, and $4.8 million in FY 2017-18. These changes are primarily due to the new Maintenance of Effort (MOE) of the In-Home Support Services program, which mandates that local support for the IHSS program increase by 3.5% each year. In addition, there are changes in support related to state policy changes in the Foster Care program, as well as projected changes in caseloads.

Public Health: The Department of Public Health (DPH) projects cost increases of $22.1 million in FY 2014-15 and $28.4 million in FY 2015-16, savings of $11.7 million in FY 2016-17, and increases of $8.9 in FY 2017-18. The expenditure changes are summarized below:

> **San Francisco General Hospital Rebuild:** The new San Francisco General Hospital is expected to open in December 2015. Total expenditures for furniture, fixtures and equipment (FF&E) are expected to total $170.0 million over FY 2013-14 and FY 2014-15. The General Fund supports a portion of these expenses. In FY 2014-15, General Fund support for FF&E is expected to increase by $27.0 million primarily due to the reduction of one-time sources budgeted in the prior year. In FY 2015-16, DPH projects $25.0 million in expenditures related to transition planning and $26.9 million to staff the new building for a partial year; however, the net change in General Fund support is $20.9 million due to the expiration of one-time FF&E expenditures. In FY 2016-17, the new hospital experiences overall savings of $19.5 million, as expenditures for transition planning expire. In FY 2017-18, DPH assumes additional costs of $0.8 million due to CPI on new hospital operating costs.
>
> **Inflationary, Regulatory, and Annualization of Initiatives:** Because inflation on medical goods and services is typically higher than inflation in other areas, DPH is projecting inflation slightly higher than CPI. Furthermore, there are projected expenditure savings in FY 2014-15 and FY 2015-16 due to budgeted initiatives from the prior planning cycle, including a reduction in community program contracts and reprogramming of the Behavioral Health Center. As a result, the report assumes savings of $4.9 million in FY 2014-15 and cost increases of $7.5 million in FY2015-16, $7.8 million in FY 2016-17, and $8.1 million in FY 2017-18.

Treasurer-Tax Collector – Gross Receipts Tax Implementation: In November of 2012, the citizens of San Francisco passed Proposition E, mandating the transition of the City's primary

business tax from the current payroll tax structure to a new tax based on gross receipts. The Office of the Treasurer-Tax Collector projects costs to increase as a result of Gross Receipts Tax implementation by $3.3 million in FY 2014-15. As implementation transitions to regular operations, project costs will decrease by $2.7 million in FY 2015-16, $1.0 million in FY 2016-17, and $1.0 million in FY 2017-18.

Annualization of Supplementals: This report assumes that the proposed Homeless Outreach Services Supplemental Appropriation of $1.4 million in FY 2013-14 is annualized to $5.6 million in FY 2014-15.

All Other Departmental Savings/(Costs): This section includes other smaller departmental changes including the cost of labor negotiations which fluctuates year by year depending on the negotiations schedule; the expiration of limited-term project costs; costs and savings associated with the closure of Candlestick Park, and several other small changes.

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